

Message Text

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43

ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 SS-20 NSC-10 L-03 DRC-01

PA-04 PRS-01 USIA-15 /145 W

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R 010940Z FEB 74

FM AMEMBASSY BANGKOK

TO SECSTATE WASHDC 0250

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E. O. 11652: NA

TAGS: EFIN

SUBJ: CENTRAL BANK TIGHTENS CREDIT

1. THE BANK OF THAILAND ON JANUARY 31 TOOK A MAJOR STEP TOWARD TIGHTENING CREDIT AS AN ANTI-INFLATIONARY MOVE BY RAISING ITS LENDING RATE TO THE COMMERCIAL BANKS AND INCREASING THE RESERVES REQUIRED AGAINST DEPOSITS. CEILINGS ON INTEREST RATES FOR LOANS AND DEPOSITS WERE ALSO RAISED.

2. THE MOVE HAS NOT BEEN WELCOMED BY LOCAL BANKERS. LEADING THAI BANKERS IN A RECENT LUNCHEON MEETING WITH THE AMBASSADOR WERE VERY VOCAL IN THEIR CRITICISM OF THE THEN-PENDING CREDIT MEASURES. THE FEBRUARY 1 BANGKOK POST REPORTS AN ATTACK ON THE BOT'S MOVE BY BOONCHU RAJANASTIEN OF THE BANGKOK BANK, ONE OF THOSE WHO PARTICIPATED IN THE LUNCHEON DISCUSSION. BOONCHU'S REMARKS AS REPORTED ARE ESSENTIALLY THE SAME AS THOSE EXPRESSED BY HIM AND THE OTHER BANKERS TO THE AMBASSADOR. HE ARGUED THAT CREDIT RESTRAINTS ARE NOT THE ANSWER TO INFLATION AND THAT SUCH ACTIONS WOULD HAVE HARMFUL EFFECTS ON THE THAI ECONOMY BY CURTAILING

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NEEDED INVESTMENT IN AGRICULTURE AND INDUSTRY.

THIS VIEW REFLECTS THE SPLIT BETWEEN THOSE WHO FAVOR EXPANSION AND MINIMIZE THE DANGERS OF INFLATION (GENERALLY BANKERS AND BUSINESSMEN) AND THOSE WHO BELIEVE THAT STRONG MEASURES MUST BE TAKEN TO BRING INFLATION UNDER CONTROL (THE RTG'S PRINCIPAL FINANCIAL OFFICIALS).

3. EMBASSY BELIEVES THAT EXPANSION OF MONEY AND CREDIT IN RECENT MONTHS HAS BEEN EXCESSIVE AND THAT CREDIT RESTRAINTS ARE CALLED FOR AT THIS TIME. ALTHOUGH MONETARY POLICY ACTIONS BY THEMSELVES CANNOT STOP THE INFLATION IN THAILAND, MOST OF WHICH IS IMPORTED, WE REGARD THE BOT'S ACTION AS POSITIVE AND TIMELY DESPITE THE RISK INHERENT IN CONTRACTING THE MONEY SUPPLY WHEN THE ECONOMY IS NOT PARTICULARLY BOUYANT AND INVESTORS REMAIN HESITANT. HOWEVER, THE FINANCIAL AUTHORITIES HAVE DEMONSTRATED A DEGREE OF FLEXIBILITY BY THEIR ACTIONS AND SHOULD THE NEED ARISE STEPS WOULD BE TAKEN TO EASE CREDIT LATER IN THE YEAR. THE VERY FAVORABLE OUTLOOK FOR EXPORT EARNINGS WILL ALSO RELEASE ADDITIONAL MONEY INTO THE ECONOMY.
KINTNER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, CREDIT CONTROLS, ANTIINFLATIONARY PROGRAMS, INTEREST RATES, BANK DEPOSITS, OPPOSITION PARTIES
Control Number: n/a
Copy: SINGLE
Draft Date: 01 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BANGKO01762
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BANGKOK
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740263/aaaachdz.tel
Line Count: 82
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 12 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12-Aug-2002 by kelleyw0>; APPROVED <14-Aug-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CENTRAL BANK TIGHTENS CREDIT
TAGS: EFIN, TH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005